

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05
SS-15 STR-04 CEA-01 L-03 H-01 PA-01 PRS-01 OES-07
ERDA-05 FEA-01 NRC-05 MC-02 ACDA-07 PM-04 DODE-00
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R 080538Z JUN 77

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 4337

INFO AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 SEOUL 4708

EO 11652: GDS

TAGS: EGEN EAID KS FR

SUBJ: FRANCO-KOREAN ECONOMIC ACTIVITIES

SUMMARY: FRENCH TRADE AND OTHER ECONOMIC RELATIONS WITH THE ROK HAVE BEEN EXPANDING AT A RAPID PACE THE PAST FEW YEARS, FINANCED TO A LARGE EXTENT BY INCREASED GOVERNMENT GUARANTEED COMMERCIAL CREDITS. ECONOMIC DIFFICULTIES MAY SLOW THE PACE SOMEWHAT BUT THE FRENCH APPEAR TO BE PROCEEDING RAPIDLY IN THEIR EFFORT TO EXPAND SCIENTIFIC AND TECHNICAL COLLABORATION WITH THE ROK.
END SUMMARY.

1. IN RECENT YEARS FRENCH ECONOMIC RELATIONS WITH THE ROK HAVE PROGRESSED RAPIDLY. SINCE 1974 FRENCH EXPORTS TO KOREA HAVE INCREASED FOUR TIMES FROM \$35 MILLION TO \$163 MILLION PRINCIPALLY AS A RESULT OF A RISE IN FRENCH BANK CREDITS FROM A CUMULATIVE TOTAL OF 1.5 BILLION FRENCH FRANCS AT THE END OF 1973 TO NEARLY 3 BILLION FRANCS (\$588 MILLION) AS OF DECEMBER 1976. THESE CREDITS HAVE ALL BEEN GUARANTEED BY THE FRENCH GOVERNMENT ORGANIZATION COFACE. DURING 1975 AND 1976 THE FRENCH ALSO PROVIDED PUBLIC LOANS AMOUNTING TO \$41.2 MILLION.
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2. FRENCH CREDITS HAVE BEEN UTILIZED PRIMARILY FOR CAPITAL EQUIPMENT EXPORTS IN BOTH PRODUCTION AND POWER FACILITIES. DURING 1976 AND THE FIRST TWO MONTHS OF 1977 LOAN AGREEMENTS WERE CONCLUDED TOTALING \$153 MILLION INCLUDING \$112 MILLION FOR POSCO STEEL MILL EXPANSION (BLOOMING AND SLABBING) AND \$28 MILLION FOR CEMENT PLANT EXPANSION PROJECTS.

3. PRESENTLY UNDER CONSIDERATION OR NEGOTIATION ARE FRENCH LOANS FOR NEARLY \$200 MILLION EXCLUDING POSSIBLE FRENCH PARTICIPATION IN NUCLEAR POWER PLANTS NUMBERS FIVE AND SIX. THESE INCLUDE \$50 MILLION FOR IMGYE DAM HYDROELECTRIC FACILITIES, \$40 MILLION FOR HYUNDAI'S INDUSTRIAL MACHINERY COMPLEX AT CHANGWON, \$20 MILLION FOR HYUNDAI'S PROPOSED DIESEL ENGINE PLANT, \$25 MILLION TO THE OSAN OIL REFINERY PROJECT (KOREA-IRANIAN JOINT VENTURE), \$25 MILLION FOR CEMENT PLANT EXPANSION (SSANGYONG CEMENT), AND A \$38 MILLION LOAN TO THE KOREAN ATOMIC ENERGY RESEARCH INSTITUTE (KAERI) FOR FUNDING OF A NUCLEAR FUEL PILOT PLANT AND OTHER RESEARCH ACTIVITIES. BOTH KOREAN AND LOCAL FRENCH SOURCES CLAIM THAT ANY FRENCH FINANCING OF THE PROJECTED FIVE AND SIX ATOMIC PLANTS WILL BE DEPENDENT ON SUCCESSFUL BIDDING BY FRAMATOME.

4. ALTHOUGH THE KOREANS ARE CONTINUING TO LOOK FORWARD TO CONTINUED FINANCING FROM FRENCH SOURCES, THE FRENCH AMBASSADOR RECENTLY INFORMED THE ECONOMIC/COMMERCIAL COUNSELOR THAT IN THE FUTURE KOREA WOULD HAVE TO PAY A LARGER PROPORTION OF THEIR IMPORTS FROM FRANCE IN CASH. HE EXPLAINED THAT AS A RESULT OF DOMESTIC ECONOMIC PROBLEMS AND WEAK FINANCIAL POSITION OF MANY FRENCH COMPANIES, ADDITIONAL LENDING OR INVESTMENTS IN KOREA COULD NOT BE ON THE SCALE OF RECENT YEARS. THE FRENCH TREASURY HAD IN FACT OPPOSED KOREAN REQUEST FOR ADDITIONAL FUNDING TO THE NUCLEAR POWER PROJECTS BUT "HIGHER POLITICAL AUTHORITY" HAD TWISTED THE TREASURY'S ARM AND THE LATTER HAS RELUCTANTLY AGREED TO INCREASE COFACE GUARANTEES TO COVER FULL FOREIGN EXCHANGE COSTS IF THE FRENCH IN FACT WIN THE BID.

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5. FRENCH COMMERCIAL COUNSELOR ALSO INFORMED EMBOFF THAT EXPANSION OF CREDITS TO KOREA WOULD SLOW DOWN AND LONGER RANGE ECONOMIC TIES WOULD PROBABLY BE IN THE REALM OF TECHNOLOGICAL TRANSFERS AND SCIENTIFIC FIELDS. IN FACT THERE ARE INDICATIONS OF A WELLCOORDINATED EFFORT BY THE FRENCH TO EXPOSE KOREAN SCIENTIFIC COMMUNITY TO FRENCH TECHNICAL EXPERTISE AT AN ACCELERATING PACE. M. NAZELLE, DIRECTOR OF THE NATIONAL CENTER OF SCIENTIFIC RESEARCH (CNRS) VISITED MINISTER OF SCIENCE AND TECHNOLOGY CHOE ON MAY 18 TO EMPHASIZE AGAIN FRENCH INTEREST IN KOREAN NUCLEAR POWER AND TIDAL POWER PROJECTS. DR. CHAI YANG-CHOO, DIRECTOR KOREAN NUCLEAR FUEL DEVELOPMENT INSTITUTE (NOTE CHANGE IN NAME FROM CORPORATION TO INSTITUTE) HAS BEEN INVITED TO VISIT FRENCH NUCLEAR INSTALLATIONS DURING MAY 30 - JUNE 10 TRIP TO EUROPE. FRENCH AMBASSADOR REMY TEISSIER DU CROS DECORATED MINISTER OF SCIENCE AND TECHNOLOGY CHOE KYONG-SOP WITH ORDER OF COMMANDER OF NATIONALE DU MERITE IN THE COURSE OF JUNE 1-2 MEETING BETWEEN THE TWO COUNTRIES ON TECHNICAL COOPERATION.

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6. THE KOREANS HAVE ALSO UNDERTAKEN TO NEGOTIATE A SERIES OF AGREEMENTS IN THE ECONOMIC FIELD. AN AGREEMENT ON PROMOTION AND PROTECTION OF INVESTMENT WAS INITIALED IN NOVEMBER 1976 AND A DRAFT AGREEMENT ON AVOIDANCE OF DOUBLE TAXATION IS BEING NEGOTIATED. IN ACCORDANCE WITH A MEMORANDUM OF FUNDERSTANDING BETWEEN THE ROK MINISTRY OF SCIENCE AND TECHNOLOGY AND CNRS, A SCIENTIFIC EXCHANGE PROGRAM HAS BEEN ESTABLISHED UNDER WHICH, TO DATE, 5 KOREANS AND 34 FRENCH SCIENTISTS HAVE PRTICIPATED IN SHORT TERM PROGRAMS, AND 5 KOREAN AND 3 FRENCH RESEARCHERS HAVE MADE LONGER RESEARCH TOURS. THE KOREANS HAVE ALSO REQUESTED FRENCH TECHNICAL ASSISTANCE FOR THE ESTABLISHMENT OF RESEARCH ACTIVITIES AT KIST TO IMPROVE CATALYST TECHNOLOGY IN THE PETROCHEMICAL FIELD.

7. FRENCH DIRECT INVESTMENT IN KOREA IS SMALL, \$5.8 MILLION, AND CAN BE EXPECTED TO REMAIN SO. PRINCIPAL FRENCH INVESTORS APPEAR TO BE IN THE TWO BANKS: BANQUE DE L'INDOCHINE ET SUEZ AND BANQUE NATIONAL DE PARIS. A THIRD FRENCH BANK, BANQUE DE PARIS ET PAYS BAS IS EXPECTED TO OPEN A BRANCH IN SEOUL IN 1977.

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8. FRANCE HAS ALSO SOLD CONSIDERABLE MILITARY EQUIPMENT TO THE ROK. PURCHASES SO FAR FROM FRANCE CONSIST OF TWO EXOCET SHIP-TO-SHIP MISSILE SYSTEMS FOR ABOUT \$40 MILLION TOTAL AND SIX ANTI-SUBMARINE HELICOPTERS WITH MISSILES FOR ABOUT \$10 MILLION. (THE U.S. RAISED NO OBJECTION TO THESE SALES SINCE THEY MET CURRENT ROK DEFENSE REQUIREMENTS AND COMPARABLE ITEMS WERE NOT AVAILABLE FROM THE U.S. AT THE TIME.) FRANCE APPARENTLY HOPES FOR MORE MILITARY SALES IN THE FUTURE, PARTICULARLY HELICOPTERS AND LOW-ALTITUDE AIR DEFENSE SYSTEMS. A FRENCH MILITARY ATTACHE IS DUE TO BE ASSIGNED TO SEOUL LATER THIS YEAR WITH THE SPECIFIC MISSION OF PROMOTING MILITARY SALES TO KOREA.

9. COMMENT: THE FRENCH HAVE EVIDENTLY UNDERTAKEN A SIGNIFICANT MOVE TO EXPAND THEIR ECONOMIC RELATIONS WITH A GROWING KOREA. A LACK OF FINANCE MAY PUT A DAMPER, AT LEAST FOR THE IMMEDIATE FUTURE, ON SOME PROGRAMS. NEVERTHELESS, IT APPEARS OBVIOUS THAT SERIOUS EFFORTS ARE BEING UNDERTAKEN TO EXPAND SCIENTIFIC AND TECHNICAL COOPERATION, AND WE MAY EXPECT ADDITIONAL ACTION IN THIS FIELD IN THE FUTURE. BOTH NUCLEAR AND TIDAL POWER ARE ESPECIALLY AREAS TO WATCH. THE FRENCH BELIEVE THEY CAN OFFER CERTAIN ADVANTAGES IN THEM AND THE KOREANS, IF THE FINANCING IS THERE, MAY DECIDE TO ENJOY THEM.
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Message Attributes

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